

MARKETS TODAY

Taylor?



Good morning

US bond yields ended the NY session on the day's highs, 10 year treasuries at 2.385%, their highest close since 12th July (they were last above 2.40% on May10th). The US dollar ended close to the highs, DXY +0.47% to 93.70, its best close since Oct 6th. This was accompanied by new record closing levels for the S&P500, Dow and the NASDAQ, up 0.5%, 0.7% and 0.4% respectively.

Momentum from Thursday night's passage by the Senate of a Budget resolution allowing for a \$1.5tn addition to deficits over the next 10 years was added to in Friday NY trade after Fox News pre-released an excerpt from an interview with President Trump, to be aired on Sunday.

Asked if bringing John Taylor and Jerome Powell together was an option, Trump says 'It is in my thinking, and I have a couple of other things in my thinking but I like talent and they're both very talented people'. Fox reported Trump may appoint a Fed chair and vice chair together. Asked who he's like to see running the Fed, Trump responded 'Most people are saying it's down to two, Mr Taylor, Mr Powell. I also met with Janet Yellen, who I like a lot. So I have three people that I'm looking at, and there are a couple of others - I'd say I will make my decision very shortly'.

Betting odds on Friday night were: Powell 58 cents, Yellen 19 cents and Taylor 18 cents.

Janet Yellen delivered a speech to the National Economists Club in Washington on Friday evening after the NY close. The Two key takeaways were that:

1. She does not expect the bond term premium – the compensation demanded by investors for bearing the interest rate risk on longer term securities - to rise appreciably as the Fed proceeds with balance sheet normalisation given its slow and predictable nature compare to the pace of QE and its various surprises.
2. If the currently estimated neutral policy rate of 2.75% (the median Fed longer term 'dot') doesn't rise over time, the chances of the Fed having to again resort to unconventional policy measures is 'uncomfortably high'.

In Q&A, Yellen said "We've had a series of weak, soft readings on inflation, core inflation, beginning in March and the reasons for that are not immediately clear". Reasons for low inflation were "pretty understandable until this year. This year has been a surprise".

In FX, continuation of NZD losses post Thursday's political news (-1% to 0.6963) was eclipsed by CAD (-1.1%) after lower than expected CPI (1.6% vs. 1.7% expected) and retail sales (ex-autos -0.7% vs. +0.3% expected). These are seen to take additional BoC tightening off the agenda this week (and probably for December too). AUD/USD closed 0.8% down at 0.7817. GBP was the only currency to buck the stronger USD trend (+0.2%) the story here a sense that EU sensitivity to

the fragility of UK PM May's political position is prompting a slight softening in their hitherto hard-line approach to Brexit negotiations (recall that German chancellor Merkel on Thursday night said that the ball was not just in the UK's court).

In US rates markets the Treasury curve bear steepened, 2yrs +4.6bps to 1.578% (+8.3bps w/w) and 10s +6.6bps to 2.385% (+11.1bps w/w).

In commodities, gold took a hit from the rebounding dollar, -\$9.50 to \$1,277.40, for a loss of \$24 or 2% on the week. Oil was little changed, WTI +20 cents to \$51.47 and Brent +50 cents to \$57.75. Iron ore recovered from its mid-week dip, +\$1.60 to \$62.46 to be flat on the week.

Coming Up

NZ is on holiday today, likely mean less price action in all things NZD that we saw in the latter half of last week. Since the AUD drew some support from the strength of AUD/NZD demand at the end of last week, in the absence of fresh demand here, AUD/USD is now more vulnerable to any extension of USD strength.

This is likely if the market buys into the prospect of a Taylor/Powell Fed Chair/VC combo and on improved prospects for tax cuts after Thursday night's Budget Resolution passed by the Senate.

Local CPI data on Wednesday is obviously a swing factor, for the local rate market perhaps more so than the currency, but barring direct AUD support from this, a look back down at the 0.7733 6th October lows on AUD/USD wouldn't surprise later in the week.

The ECB is also a swing factor this week (Thursday) where consensus is for a €20bn per month QE taper for January. Before that Catalonia developments threaten to keep the Euro on the back foot, after Spanish PM Rajoy on Saturday said he will dismiss Catalan President Carles Puigdemont and his government, and take control of the regional police force and public television and radio channels, subject to Senate approval this week.

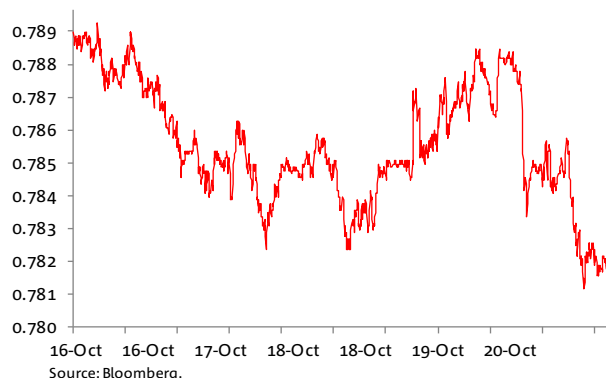
There's nothing much of note on today's calendar. Digestion of Sunday's Japan election is unlikely to be a big market mover. China property prices will rate a mention, while in Europe and North America the only thing of note is the UK CBI industrial trends survey.

Overnight

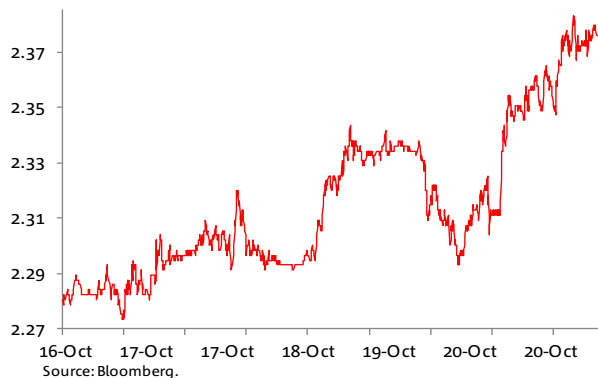
On global stock markets, the S&P 500 was +0.51%. Bond markets saw US 10-years +6.67bp to 2.38%. In commodities, Brent crude oil +0.91% to \$57.75, gold-0.7% to \$1,277, iron ore +2.6% to \$62.46, steam coal +0.4% to \$97.15, met. coal -0.5% to \$181.00. AUD is at 0.7817 and the range since 5pm Sydney time on Friday is 0.7810 to 0.7856.

Markets

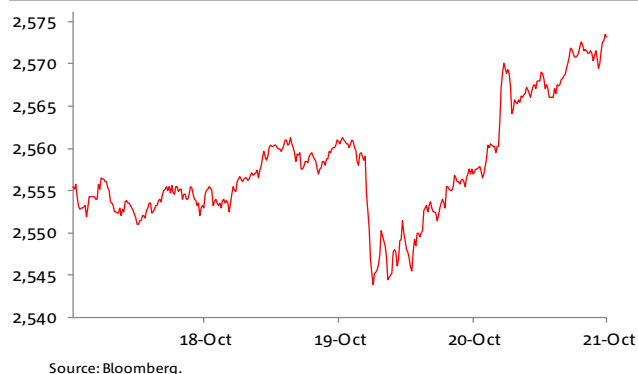
AUD/USD - past week



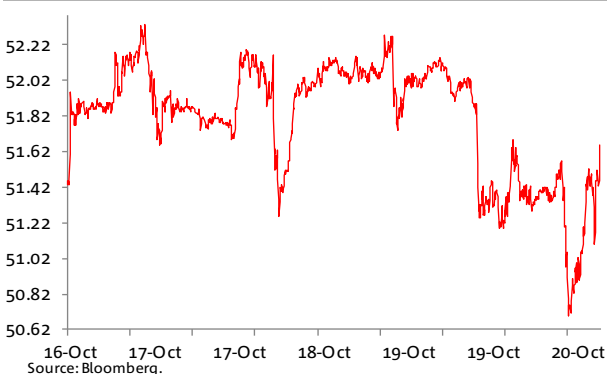
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7817	-0.8	0.7808	0.7882	HKD	7.8047	0.0
NZD	0.6963	-1.0	0.6954	0.7037	CNY	6.6205	0.1
EUR	1.1784	-0.6	1.1763	1.1858	SGD	1.3613	0.3
GBP	1.3190	0.2	1.3088	1.3201	IDR	13,519	0.0
JPY	113.52	0.9	112.52	113.57	THB	33.19	0.2
CAD	1.2627	1.1	1.2477	1.2630	KRW	1,131	-0.1
AUD/EUR	0.6634	-0.2	0.6628	0.6655	TWD	30.25	0.1
AUD/JPY	88.74	0.1	88.60	88.99	PHP	51.48	0.0
AUD/GBP	0.5929	-1.0	0.5922	0.5993	CHF	0.98	0.8
AUD/NZD	1.1227	0.2	1.1195	1.1254	SEK	8.16	0.4
AUD/CNH	5.1751	-0.7	5.1726	5.2089			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	1.25	1.36	1.82	2.36	USD 10	2.38	6.67	
AUD	1.50	1.70	2.02	2.96	AUD 10	2.78	1.60	0.39
NZD	1.75	1.94	2.17	3.21	NZD 10	2.95	2.50	0.57
EUR	0.00	-0.33	-0.18	0.90	CAD 10	2.03	1.50	-0.36
GBP	0.25	0.39	0.82	1.37	EUR 10	0.45	5.70	-1.93
JPY	-0.04	-0.04	0.04	0.26	GBP 10	1.33	5.20	-1.05
CAD	1.00	1.43	1.83	2.33	JPY 10	0.08	0.80	-2.31

Equities

Major Indices			
	Last	% day	% y/y
Dow	23,329	0.71	28.6
S&P 500	2,575	0.51	20.3
Nasdaq	6,629	0.36	26.1
VIX	9.97	-0.80	-25.3
FTSE	7,523	0.0	7.2
DAX	12,991	0.0	21.3
CAC 40	5,372	0.1	18.4
Nikkei	21,458	0.0	24.9
Shanghai	3,379	0.3	9.3
Hang Seng	28,487	1.2	21.9
ASX 200	5,907	0.2	8.8

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.26	0.00
3 Yr bond	97.8	1.00
10 Yr bond	97.22	0.00
3/10 sprd	0.58	1.00
SPI	5890.0	-12.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	57.75	0.9
Oil (WTI)	51.84	0.6
Oil (Tapis)	58.50	-1.0
Gold	1277.40	-0.7
CRB	184.12	0.0
GS Metals	374.4	-0.4
Aluminium	2125.3	-0.8
Copper	6929.5	-0.2
Nickel	11687.0	-0.1
Zinc	3127.0	-0.5
Ch. steel	3679.0	1.6
Iron ore	62.5	2.6
St. Coal	97.2	0.4
Met.coal	181.0	-0.5
Wheat Chic.	444.5	-1.5
Sugar	14.0	-0.9
Cotton	66.9	-0.6
Coffee	125.3	-1.3

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-1.0	-4.0%
FED	-0	-0.4%

Please note the high/low FX rates are only an indication. Please refer to your National Dealer for confirmation.

* All near futures contracts, except CRB. GS Metals is Goldman Sachs industrial metals index. Metals prices are CME. Emissions: ICE Dec contracts, Euros

** These are indicative ranges over the past 24 hours; please confirm rates with your NAB dealer

Last is around 6:30am Sydney

Source: Bloomberg

CALENDAR

Saturday, 21 October 2017						
US	Yellen Speaks to National Economists Club in Washington				0.15	10.15
Monday, 23 October 2017						
NZ	Public Holiday					
CH	Property Prices	Sep			2.30	12.30
JN	Leading Index CI	Aug F		106.8	6.00	16.00
EC	Govt Debt/GDP Ratio	2016		#N/A N/A	10.00	20.00
UK	CBI Business Optimism	Oct		5.0	11.00	21.00
UK	CBI Trends Total Orders/Selling Prices	Oct	/	7.0/18.0	11.00	21.00
CA	Wholesale Trade Sales MoM	Aug		1.5	13.30	23.30
US	Chicago Fed Nat Activity Index	Sep	-0.1	-0.3	13.30	23.30
CA	Bloomberg Nanos Confidence	Oct 20		57.9	15.00	1.00
EC	Consumer Confidence	Oct A	-1.1	-1.2	15.00	1.00
Tuesday, 24 October 2017						
CH	19th People's Party Congress Wraps Up					
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 22		112.4	23.30	9.30
JN	Nikkei Japan PMI Mfg	Oct P		52.9	1.30	11.30
GE	Markit/BME Germany Manufacturing/Services PMI	Oct P	60/55.6	60.6/55.6	8.30	18.30
GE	Markit/BME Germany Composite PMI	Oct P	57.7	57.7	8.30	18.30
EC	ECB Bank Lending Survey				9.00	19.00
EC	Markit Eurozone Manufacturing PMI	Oct P	57.7	58.1	9.00	19.00
EC	Markit Eurozone Services PMI	Oct P	55.8	55.8	9.00	19.00
EC	Markit Eurozone Composite PMI	Oct P	56.5	56.7	9.00	19.00
EC	Euro Area Second Quarter Government Deficit	Q2			10.00	20.00
EC	Euro Area Second Quarter Government Debt	Q2			10.00	20.00
US	Markit US Manufacturing/Services PMI	Oct P	53/55	53.1/55.3	14.45	0.45
US	Markit US Composite PMI	Oct P		54.8	14.45	0.45
US	Richmond Fed Manufact. Index	Oct	16	19.0	15.00	1.00
Wednesday, 25 October 2017						
AU	Skilled Vacancies MoM	Sep		0.3	1.00	11.00
AU	CPI QoQ	3Q	0.8/2.0	0.8/2	0.2/1.9	1.30
AU	CPI Trimmed Mean QoQ	3Q	0.5/2.0	0.5/2	0.5/1.8	1.30
AU	CPI Weighted Median QoQ	3Q	0.4/1.9	0.5/2	0.5/1.8	1.30
GE	Ifo Business Climate	Oct		115	9.00	19.00
GE	Ifo Current Assessment/Expectations	Oct	123.5/107.3	123.6/107.4	9.00	19.00
UK	UK Finance Loans for Housing	Sep		41807.0	9.30	19.30
UK	GDP QoQ/YoY	3Q A	0.3/1.5	0.3/1.5	9.30	19.30
UK	Index of Services MoM/3m rolling change	Aug	/	-0.2/0.5	9.30	19.30
US	MBA Mortgage Applications	Oct 20		3.6	12.00	22.00
US	Durable Goods Orders	Sep P	1.3	2.0	13.30	23.30
US	Cap Goods Orders Nondef Ex Air	Sep P	0.2	1.1	13.30	23.30
EC	European Commission Economic Forecasts					25 Oct - 7 Nov release
US	FHFA House Price Index MoM	Aug	0.4	0.2	14.00	0.00
CA	Bank of Canada Rate Decision	Oct 25	1	1.0	15.00	1.00
US	New Home Sales, #/MoM	Sep	550/-1.8	560.0/-3.4	15.00	1.00
CA	Bank of Canada Releases October Monetary Policy Report				15.00	1.00
CA	BOC's Poloz and Wilkins Hold Press Conference in Ottawa				16.15	2.15
Thursday, 26 October 2017						
NZ	Trade Balance NZD	Sep	-900	-1235.0	22.45	8.45
JN	PPI Services YoY	Sep	0.8	0.8	0.50	10.50
AU	Import/Export Price Index QoQ	3Q	-1.8/-4	-0.1/-5.7	1.30	11.30
CH	Swift Global Payments CNY	Oct		1.9	2.00	12.00
GE	GfK Consumer Confidence	Nov	10.8	10.8	7.00	17.00
AU	RBA's Debelle Gives Speech in Sydney				8.45	18.45
UK	CBI Retailing/Total Distributives Reported Sales	Oct		42.0/44.0	11.00	21.00
EC	ECB Main Refinancing Rate/Marginal Lending Facility Rat	Oct 26	0/0.25	0.0/0.3	12.45	22.45
EC	ECB Deposit Facility Rate/Asset Purchase Target	Oct 26	-0.4/	-0.4/60.0	12.45	22.45
US	Wholesale Inventories MoM	Sep P		0.9	13.30	23.30
US	Initial Jobless Claims	Oct 21		222.0	13.30	23.30
US	Advance Goods Trade Balance	Sep	-64	-63.3	13.30	23.30
US	Retail Inventories MoM	Sep		-999998.0	13.30	23.30
US	Bloomberg Consumer Comfort	Oct 22		51.1	14.45	0.45
US	Pending Home Sales MoM/YoY	Sep	0.25/	-2.6/-3.1	15.00	1.00
US	Kansas City Fed Manf. Activity	Oct		17.0	16.00	2.00
Friday, 27 October 2017						
JN	Natl CPI/ex Fresh Food YoY	Sep	0.7/0.7	0.7/0.7	0.30	10.30
JN	Natl CPI Ex Fresh Food, Energy YoY	Sep	0.2	0.2	0.30	10.30
AU	PPI QoQ/YoY	3Q	/	0.5/1.7	1.30	11.30
CH	Industrial Profits YoY	Sep		24.0	2.30	12.30
EC	ECB Survey of Professional Forecasters				9.00	19.00
US	GDP Annualized QoQ	3Q A	2.5	3.1	13.30	23.30
CA	CFIB Business Barometer	Oct		56.9		
US	U. of Mich. Sentiment/5-10Y Inflation expectations	Oct F	101/	101.1/2.4	15.00	1.00
US	Baker Hughes U.S. Rig Count/Oil Rigs only	Oct 20	/	928.0/743.0	18.00	4.00
Upcoming Central Bank Interest Rate Announcements						
Europe ECB		26-Oct	-0.4%	-0.4%	-0.4%	
Canada, BoC		26-Oct			1.00%	
Japan, BoJ		31-Oct	-0.1%	-0.1%	-0.1%	
US Federal Reserve		2-Nov	1.00-1.25%	1.00-1.25%	1.00-1.25%	
UK BOE		2-Nov			0.25%	
Australia, RBA		7-Nov	1.50%	1.50%	1.50%	
New Zealand, RBNZ		9-Nov			1.75%	

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Savings Time

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